

Is unpredictability the new normal?



UBS Investor Watch

Global perspectives / Q2 2017

Do we live in turbulent times?

UBS Investor Watch is UBS Wealth Management's international analysis of issues facing people who have seven-figure sums to save and invest. In each edition, we take an in-depth look at a current issue affecting these High Net Worth Individuals (HNWIs) and their plans for the future.

For this edition, we interviewed more than 2,800 millionaires in seven markets around the world (Hong Kong, Japan, Singapore, Mexico, Italy, Switzerland and the UK) to assess how unpredictability is shaping their attitudes and actions.

The past year saw many unexpected events with major political, economic and social consequences. The election of Donald Trump as President of the USA, the UK's vote to leave the European Union, tensions over North Korea, high profile terrorist attacks and severe natural disasters, to name but a few.

At the same time, a series of powerful long-term trends continues, including climate change, a rising tide of populism, the development of artificial intelligence and robotics. Each has the potential to cause significant disruption and uncertainty.

Opinions differ on whether or not this is anything out of the ordinary. Some feel we live in very unpredictable times, while others consider such events to be no different to those experienced by previous generations.

So, just how unpredictable is the world in HNWIs' minds? What drives uncertainty in their view and how do they respond to it? What impact does unpredictability have on their wealth? This edition of UBS Investor Watch sets out to answer these fundamental questions.

UBS Investor Watch: An unpredictable world

? Do millionaires feel the world has become more unpredictable, and why? What is causing the unpredictability and how are people responding to it?

We sought the views of

2,800 millionaires...

...across **seven** markets:

Hong Kong, Japan, Singapore,

Mexico, Italy, Switzerland and the UK

...each with **USD 1 million** or more in investable assets.



Unpredictability: What did we find?

Despite being the most unpredictable period in history...

- **82%** of the millionaires we interviewed believe this is the most unpredictable period in history.
- Political uncertainty is a key part of this. **71%** believe elected governments can respond only to short-term dangers. Even more think that today's electorates vote on emotions, not facts.
- **68%** struggle with information overload. While trust in traditional media remains high in most countries, digital media gets mixed reviews. Many interviewees believe media can also cause uncertainty in their reporting.

...driven by financial and economic risks

- While concern about political risk varies, the economic and financial landscapes are seen as the biggest causes of global uncertainty, in particular, the global financial system.
- Millionaires are more focused on long-term risks than short-term ones, but **72%** still get distracted by the latter.
- Unpredictability is more of a threat than an opportunity in millionaires' minds.

...optimism about the future prevails

- **77%** of millionaires believe they can accurately assess financial risks arising from uncertain events.
- Millionaires feel that finding safe places to invest their wealth is not a problem: **75%** see cash as a safe option in uncertain times despite the downsides of holding this asset.
- And they remain optimistic about the future in terms of both their personal financial situation and the wider economy: **51%** expect their finances to improve in the next 12 months compared to just **13%** who expect them to deteriorate. The majority (**57%**) is also optimistic about achieving their long-term financial goals compared to just **11%** who are pessimistic.

"This is a strange time to live in."

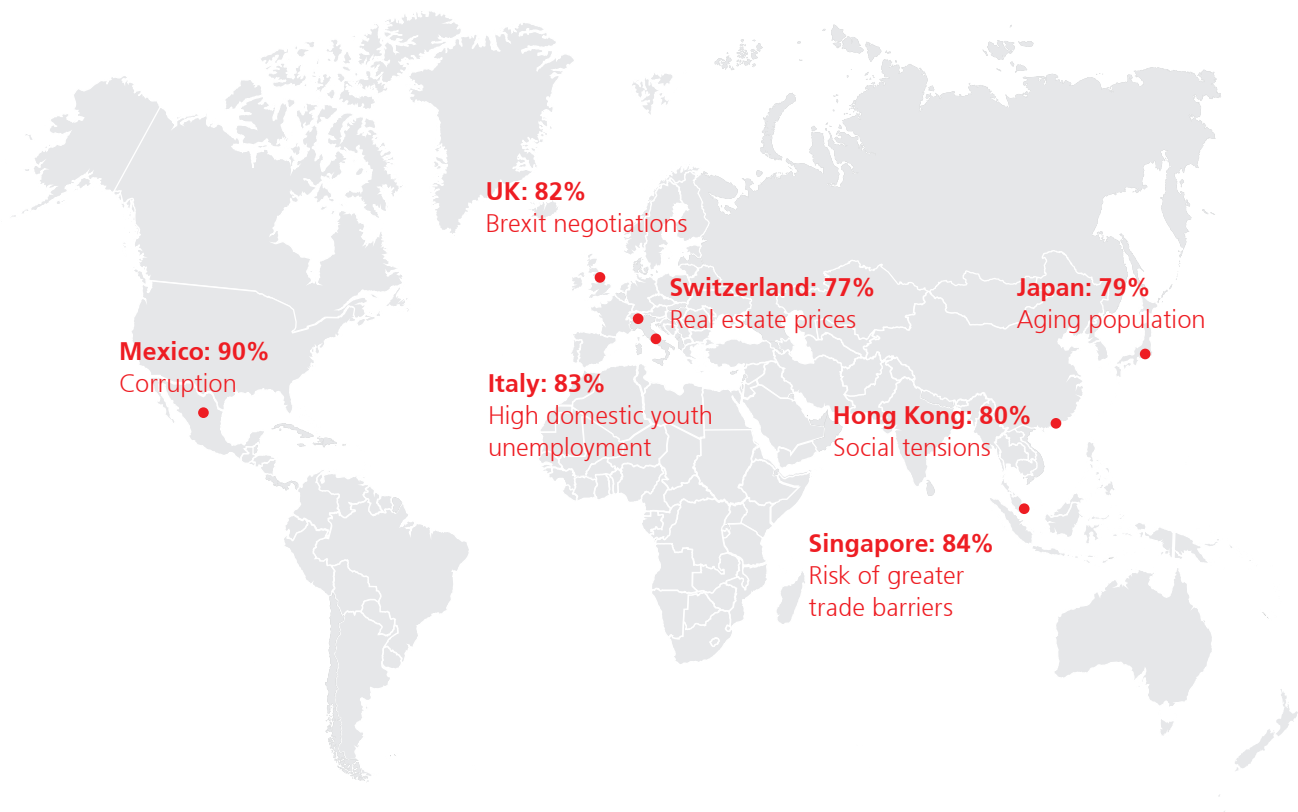
Employed / Inheritance, (Male, age 42) – Switzerland

82%

of millionaires globally believe we are currently living through the most unpredictable period in history

Do you agree or disagree with the following statement: "We are currently living through the most unpredictable period in history"? (percentage who strongly or somewhat agree)

What is the biggest source of domestic uncertainty?



Why does the world feel unpredictable?

82% of the millionaires we interviewed believe this is the most unpredictable period in history. What drives these perceptions and are they accurate?

This belief is reflected in the attitudes of millionaires to the media, different political systems and the global financial system. All are seen as sources of uncertainty. But when it comes to actions in the real world, there is a gap between people's perceptions and their behaviors.

The role of the media in uncertain times

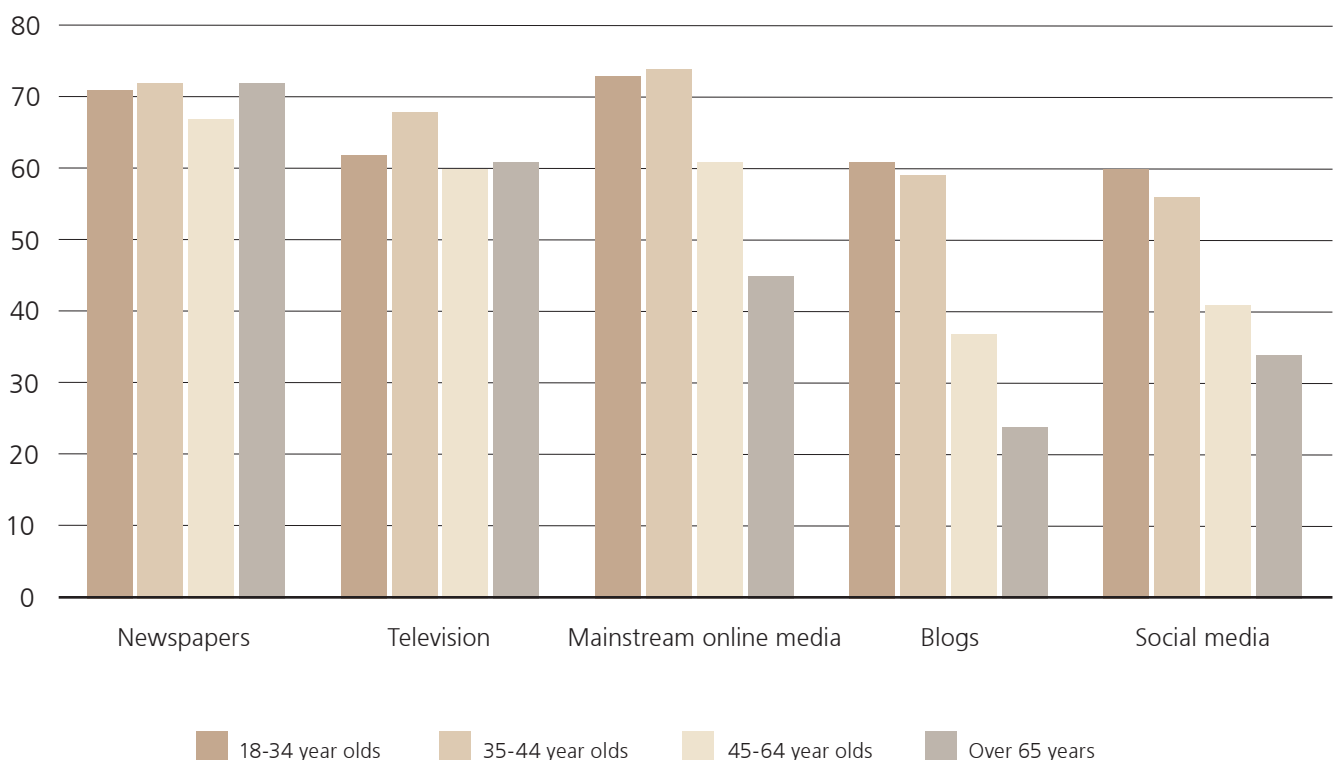
With news feeds being created almost in real-time, millionaires consume a range of information sources when making their decisions.

Trust in individual media sources varies considerably. Wealthy individuals typically believe what is reported in newspapers (70%) and on mainstream television (63%).

Trust in television varies considerably across geographies, from just half of those in Italy and Mexico to nearer three-quarters in the UK. Older respondents favor newspapers and television. Younger millionaires are more enthusiastic about digital media.

Too much information can be a bad thing, however. 68% say they suffer from overload.

What level of trust do you have in these information sources when making important decisions?
(percentage who strongly or somewhat trust)



Political uncertainty varies

Millionaires see little difference in the levels of uncertainty caused by different political systems. In an age of populism, most say emotions rather than facts drive public opinion and voters’ decisions.

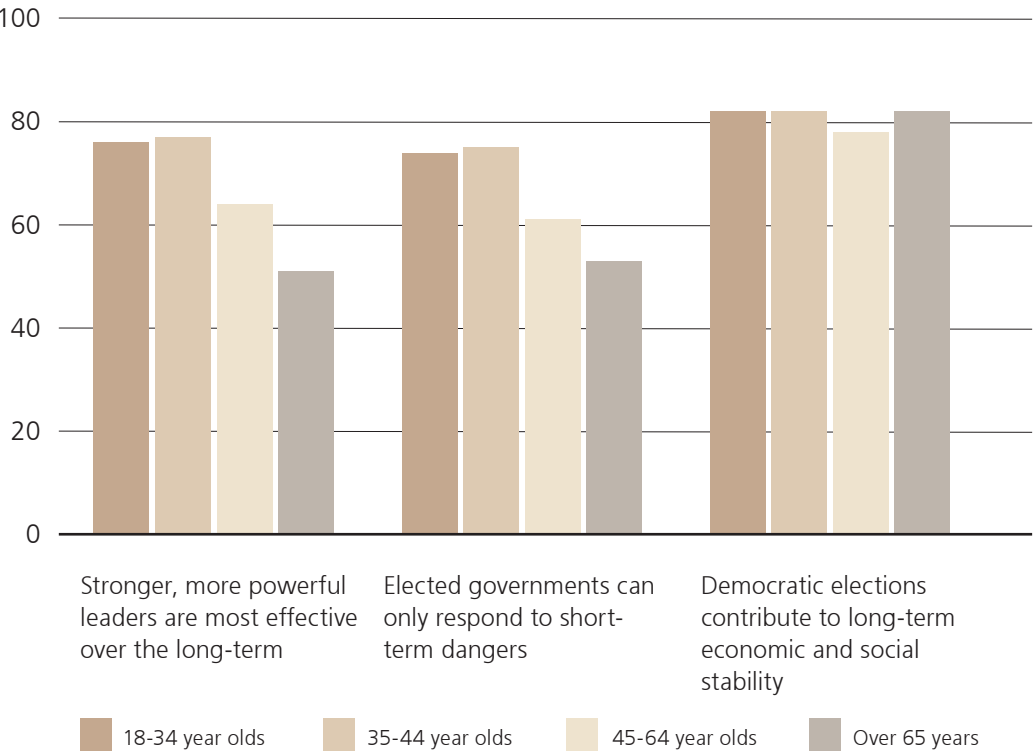
Over the long-term, however, 81% say democratic elections contribute to social and economic stability.

Political attitudes are strikingly different across age groups. Over 65s strongly associate authoritarian regimes or one-party states with uncertainty. Younger millionaires seem more concerned that democratic systems are too short-termist, and believe that powerful individual political leaders are the most effective in the long-term.

“I always try to keep in mind political and economic unpredictability before making financial investment decisions.”

Employed with inherited wealth (Male, age 31) – Italy

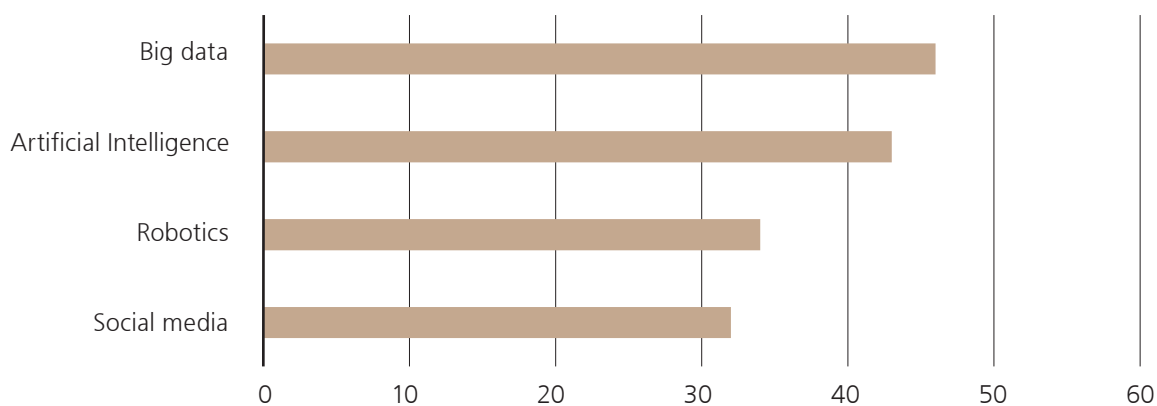
Thinking about the effects of geopolitics on uncertainty, do you agree or disagree with the following statements? (percentage who strongly or slightly agree)



Can technology come to the rescue?

We might hope that technologies such as big data and Artificial Intelligence would help us to create more predictability. But only a minority are confident that these technologies make the world more certain.

Which, if any, of the following technologies do you feel are making the world more predictable?



"We live in a new and unpredictable world where the emotional has taken precedence over the factual."

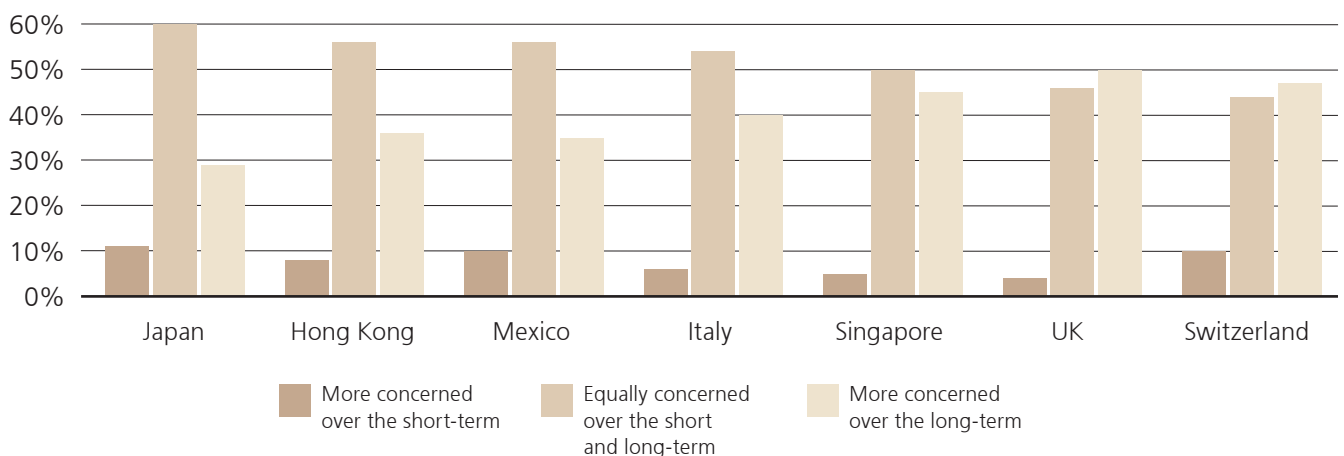
Employed with family wealth (Male, age 46) – Switzerland

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Short or long-term uncertainty: Which matters more?

When preparing for the future, millionaires recognize the need to separate short-term shocks from longer-term trends.

Are you more concerned about uncertainty linked to global events and trends over the long-term or the short-term?

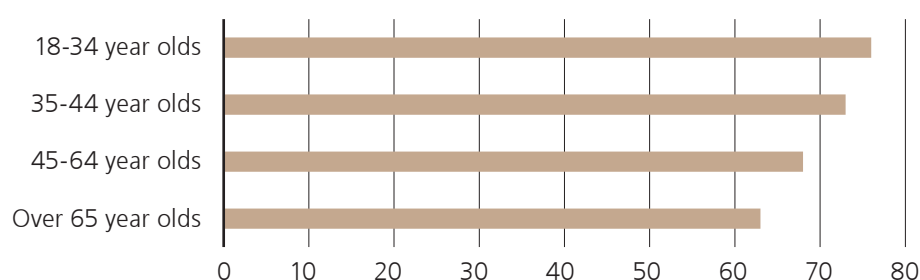


Avoiding short-termism

Millionaires say they care more about long-term economic and financial risks than current 24/7 headlines. Despite this, millionaires battle to block out the noise of daily news.

Almost three-quarters (72%) say that short-term volatility distracts them from their long-term investment planning.

Personally, I feel that I am often distracted from my long-term investment planning by short-term risks (percentage who strongly or somewhat agree)



Those under 45 are more likely to get sidetracked by the latest media story or unexpected event.

financial system generates unpredictability rather than absorbs it.

Interviewees in Hong Kong and Singapore acknowledge that immediate risks divert their attention from longer-term planning.

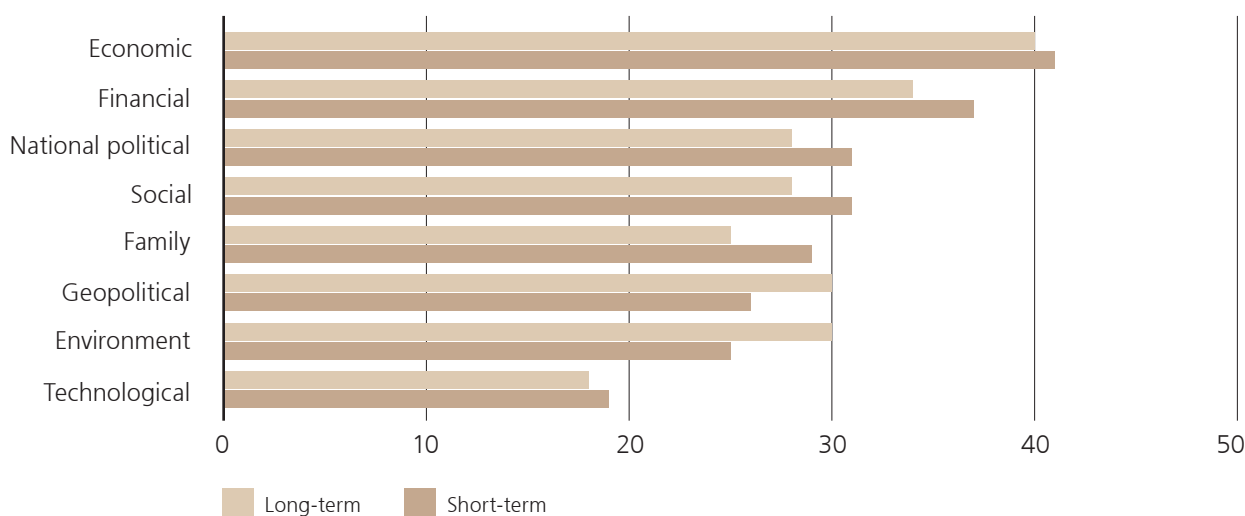
The most concerning short-term noise is often closest to home. Despite global tensions and the rise of populism in many countries, millionaires seem almost nonchalant about the potential for worldwide geopolitical disruption.

The financial system is a shock generator

Economic and financial risks generally outweigh political, social or environmental concerns in both the short and the long terms. In fact, a significant majority thinks the global

Meanwhile, the perception of national political risk varies widely. It is high in Mexico and Hong Kong, but far down the list of concerns in Switzerland and Japan.

Which of the following possible risks or causes of uncertainty are you most worried about in the short-term and the long-term?



Business short-termism a particular concern

A large percentage thinks companies are too concerned with short-term risks and ignore long-term challenges.

Shareholders and investors are equally guilty – they are far too focused on the next few months than the years or decades ahead.

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Unpredictability: Opportunity or threat?

Wealthy individuals sometimes have biases that professional advisers caution them against.

They trust their gut instincts. They think investing in their home country is less risky. They look to preserve wealth in “safe places” rather than spreading it around.

All this is contrary to investment best practice: take professional advice and diversify your portfolio globally and across asset classes.

So how do the world’s millionaires actually make their investment choices in this, the “most unpredictable period in history”?

“Uncertainty brings about both risks and opportunities.”

Employed (Female, age 34) – Singapore

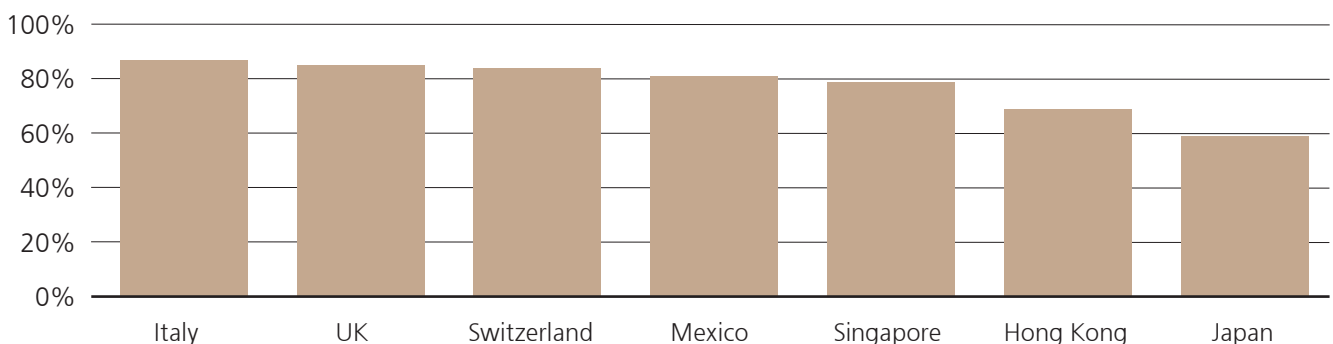
Confident or complacent?

Most millionaires seem to be confident they can steer their way through the turbulence without so much as a dent in their finances.

They identify economic and financial risks as their big concerns. They have serious doubts about the world’s corporate and financial system. And yet, they stride into the future with assurance.

Over three quarters (77%) of millionaires claim to be confident about assessing financial risks – despite the potential threats they pose to their wealth. A small number (11%) even see financial volatility linked to uncertainty purely as an opportunity.

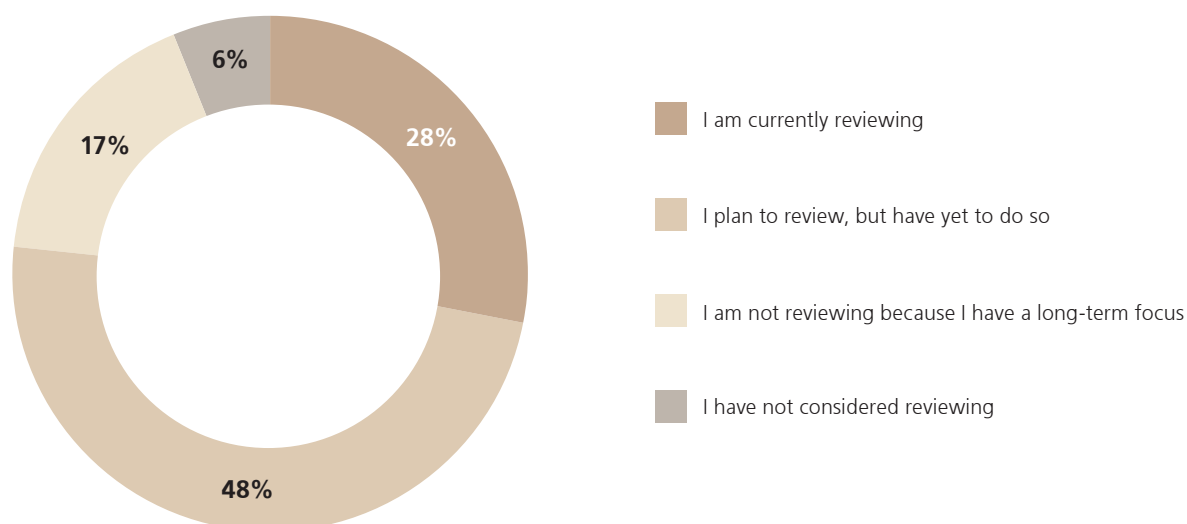
How confident are you in your ability to accurately assess financial risks relating to uncertain global events and trends? (percentage who are very/fairly confident)



Where should I invest in uncertain times?

Some try to bulletproof their portfolios in order to respond to uncertainty. More than a quarter (28%) are already reviewing their investments. A larger number (48%) plan to review but haven't yet done so (more than half of those under 45 fall into this category).

Are you reviewing your investments as a result of recent unexpected global events?

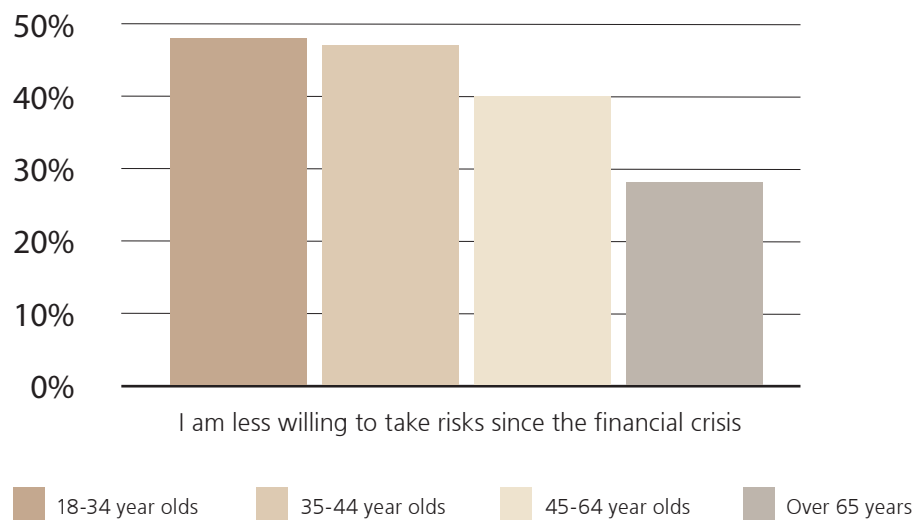


An overwhelming 86% trust their own instinct when making important decisions, and many rely on peer recommendations. Three-quarters say they also trust paid-for expert advice at such moments.

But many display biases that could undermine their long-term investment success and ability to achieve their goals.

For instance, 75% see cash as a safe option, even though it will perform poorly compared with other asset classes in the context of rising inflation. Three-quarters think physical assets such as property, art and wine are safe investments. A similar proportion sees security in their home market.

Thinking back to the financial crisis of 2008, what do you feel the effect of it has been on your attitude to risk?



Younger millionaires have a particularly strong faith in safe harbors for their financial security; it would be a mistake to think of them as being the most daring group.

The older cohort has become the most battle-hardened in the aftermath of the financial crisis. Most of those over 65 are either more willing to take risks or feel their attitude hasn't shifted.

"Take a pragmatic view. Stand back and observe events then come to a measured decision."

Executive (Male, age 59) – Hong Kong

"Keep calm, don't instantly react to daily news reports, sit back and watch trends."

Entrepreneur (Male, age 71) – UK

The UBS Confidence Index

The UBS Confidence Index tracks the confidence and optimism of High Net Worth Individuals (HNWIs). It looks at four measures of millionaires' confidence in their own prospects and the outlook for the world economy. Our analysis produces an average of the number of people confident about each measure:

- Confidence in their personal financial situation over the next 12 months
- Confidence in the economic outlook over the next 12 months
- Optimism in reaching their long-term financial goals
- Optimism in the long-term global investment climate

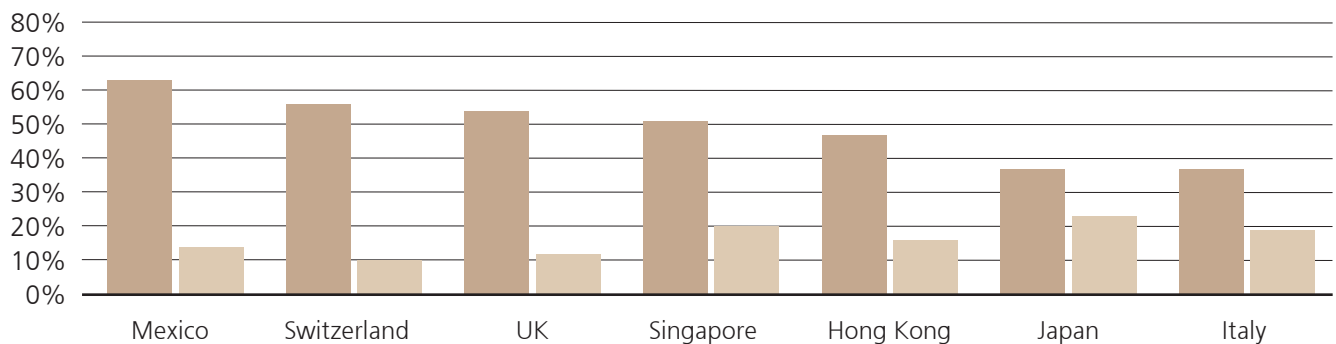
Entrepreneurs and youth are the most confident

Despite living in what they consider a very unpredictable age, confidence is high according to the Index. Sentiment is generally higher for millionaires' individual prospects than for those of the world as a whole. It is also stronger in the long than the short-term.

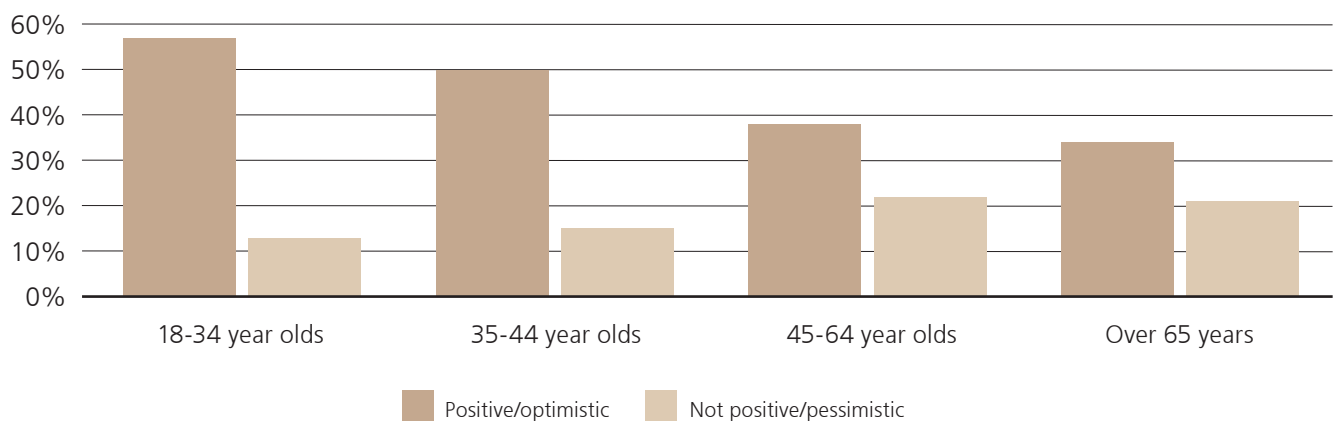
Younger respondents are significantly more optimistic than their older peers. Entrepreneurs display the highest level of confidence of any group.

Millionaires in Mexico are the most optimistic, despite 90% of them believing we live in the "most unpredictable age in history." Confidence in Japan and Italy is significantly lower.

The UBS Confidence Index – country by country



The UBS Confidence Index – by age



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Unpredictability may be a fact of life, but it can be dealt with

Uncertainty comes from many angles – the financial system, various forms of politics and government, new and traditional media sources.

Short-term thinking is dangerous. Long-term risks are abundant. Unpredictability is more of a threat than an opportunity.

Yet, confidence is high in dealing with our uncertain world. The critical question is how we translate this confidence into tangible results for our wealth.

Three things in particular can help to deal with unpredictability:

1. **Focus on the long-term.** Avoid responding to short-term events or distractions. Cutting through this noise has never mattered more, because there has never been so much of it.

2. **Maintain a diversified portfolio.** Exposure to a broad range of assets and geographies is essential. It helps to avoid the risks of domestic biases. Adding alternative investments can provide another source of protection against global and regional uncertainty while offering attractive yield opportunities in the mid to longer term.

3. **Be wary of overestimating the safety of cash.** Cash may always be attractive, especially in an unpredictable world. But inflation erodes its value, meaning that cash assets can damage your financial health in the long-term.

Do we live in the most unpredictable age in history? Possibly. Is confidence in our ability to navigate it a good thing? Probably. Does it guarantee success in protecting and growing wealth in the years to come? Not necessarily.

People have relied for centuries on an outside voice offering a sober perspective and considered advice. In an unpredictable age, that advice appears even more important.

“There will always be something unpredictable in our lives. We have to take it easy and make decisions with a cool head.”

Female, age 30 – Mexico

More about us and our survey

About UBS Wealth Management

UBS is one of the world's leading financial firms. Protecting and managing wealth is at the heart of what we do: by providing investment advice and solutions to our clients and helping them to protect their assets in difficult market environments.

UBS has long been known for its leading investment research. You may also be interested in our annual Billionaire's Report, which explores the attitudes and opinions of the world's Ultra High Net Worth Individuals.

About the survey

UBS commissioned international research firm Censuswide to investigate the beliefs and attitudes of millionaires worldwide.

Combined with our own insights, the UBS Investor Watch report is a global research platform to help you understand the views, interests and concerns of the world's High Net Worth Individuals.

The sample comprised 2,842 US dollar millionaires across seven of the world's major markets: Hong Kong, Japan, Singapore, Mexico, Italy, Switzerland and the UK.

At least 400 were surveyed in each market, and at least 30% of respondents were women. Interviews were carried out online during January and February 2017.

In this study, millionaires are defined as those with over USD 1 million in investible assets, excluding their primary property.

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